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EEB FOR A/S SULLIVAN  
TREASURY FOR A/S LOWERY

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TAGS: EFIN PREL TU

SUBJECT: TURKEY: MINISTER SIMSEK ON IMF RELATIONS, EBRD  
STATUS AND CLOSURE CASE

REF: A. ANKARA 622

¶B. ANKARA 639

¶C. ANKARA 644

Classified By: ECONOMIC COUNSELOR DALE EPPLER FOR REASONS 1.4 B AND D

¶11. (C) Summary: Ambassador Wilson met April 3 with State Minister for the Treasury Mehmet Simsek. Simsek said Prime Minister Erdogan has told ministers that, to the maximum extent possible, it should be "business as usual" in the face of the AKP party closure suit and that the GOT should proceed with its reform agenda, including a political package to fix article 301. But the government had been weakened and it was proceeding cautiously, avoiding public debate on the Social Security reform package and delaying release of the Labor Markets reform until Social Security was approved. Simsek said he recommended to the cabinet that Turkey pursue a precautionary standby agreement with the IMF after the current program expires, but no decision had been made yet. He outlined an ambitious economic reform agenda (septel). Simsek raised Turkey's strong interest in becoming an EBRD recipient country. Simsek made clear that the GOT does not want a confrontation with the USG over this, but said Turkey needs long-term financing, particularly in Southeast Turkey and for its small and medium-sized companies. The Ambassador said the USG does not see this as a Turkey issue, and encouraged Turkey not to make a formal application that might force the USG into a position where it would have to vote against Turkey. U/S Cankaci said Turkey needs to decide by April 8 whether to apply. The Ambassador urged Simsek to reach out to senior U.S. Treasury officials if this was very important to Turkey. End summary.

AKP Closure Case and GOT Policy

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¶12. (C) Simsek said that Prime Minister Erdogan had told his ministers that despite the closure case against the AKP (see refs A and C), they should continue on a "business as usual" basis to the maximum extent possible. Continuing with reforms and the government's agenda was the best way forward. The government knows that people are tired of this dispute and wants the GOT to get on with the business of government.

¶13. (C) Simsek said the Social Security reform bill was finally in the Parliament and the first 30 articles had been passed. He said the revised bill was "good enough" as a reform, but it also was very political and he was not going to say that publicly. They had made some unimportant concessions to the unions, but wanted the unions publicly to

be seen as getting something to avoid political problems. They also have a "very comprehensive" labor reform package that they will not make public until the Social Security reform is passed. "We've been weakened" by the party closure case, Simsek said, and we do not want to have two unpopular reforms affecting workers being debated at the same time, particularly severance pay, which will be very sensitive to reduce.

¶4. (C) Simsek said the Prime Minister also intended to go forward with a package of political reforms that would resolve EU concerns over article 301 and "other nuts and bolts." He noted how the opposition had fought the AKP over the Foundations Law (ref B), forcing a vote on each individual article, but they eventually had passed it because it "needed to be done," and said they would need a similar effort on the Article 301 package.

Future Relations with the IMF

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¶5. (C) The Ambassador asked what the GOT planned for its follow-on relations with the IMF when the current standby program expires in May. Simsek said he had briefed the cabinet on the two real options: a precautionary standby, which Simsek recommended, or Post Program Monitoring, which Turkey would fall into by default if it did not negotiate something else. The final decision was a political one, Simsek said, and had not yet been made. Turkey was not in need of IMF financing next year, but he agreed that the IMF's seal of approval would be very valuable as Turkey seeks foreign investment. He added that in any case, the GOT would put forward a medium-term fiscal plan with a debt/GDP target of 20%.

Requests USG Support for Turkey to become EBRD recipient

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¶6. (C) Simsek raised Turkey's "strong interest" in becoming an EBRD recipient country. He made clear that the GOT does not want a confrontation with the USG over this, but said Turkey needs long-term financing, particularly in Southeast Turkey and for its small and medium-sized companies. The Ambassador said that we did not see this as a Turkey issue, but one of EBRD management, complicated by our probable need to consult with Congress. The USG is not dead set against the proposal, but would prefer that Turkey not formally apply at this time. The USG wants any expansion in EBRD's mandate to be considered by the board on the merits and approved unanimously.

¶7. (C) Treasury U/S Cankaci said they faced a short time deadline. Turkey would have to submit its application to become an EBRD recipient by April 8 for the issue to be considered at the May EBRD board meeting. The Ambassador said we would strongly encourage Turkey not to make a formal application yet. We do not want to have the issue rushed forward and to be put in the position of voting against Turkey. Consulting with Congress would take time. Canakci said that they had understood that this was a decision that could be made by the EBRD board. The Ambassador agreed insofar as the EBRD was concerned, but said that the USG might need to consult with Congress before it could vote for an expanded mandate.

¶8. (C) The Ambassador encouraged Simsek to reach out to US Treasury officials at a high level if this issue was very important to Turkey. Simsek said he had raised the issue briefly with Treasury Secretary Paulson in South Africa and Paulson had been supportive, but he was not briefed on the issue. Simsek said he also had raised the issue with U/S McCormick, who also had seemed supportive. Simsek said he might try to speak again with Paulson or McCormick by telephone before the April 8 deadline.

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WILSON